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## Russian Federation

### Grain and Feed

## Russian Government Intends to Support Grain Exports

## 2008

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**Report Highlights:**

In view of Russia's bumper grain crop and rapidly decreasing domestic grain prices, Russia's First Deputy Prime Minister Viktor Zubkov has approved measures aimed at supporting Russian grain exports in MY 2008. The measures include reducing grain rail tariffs, expediting VAT reimbursements, stimulating grain and flour exports, and possibly using grain export subsidies. The proposed measures have not yet been adopted by any Government Resolution, and experts consider that measures aimed at decrease of exporters' transportation and logistics expenses have higher chances to be adopted than direct subsidies.

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Includes PSD Changes: No  
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## Executive Summary

In view of Russia's bumper grain crop and rapidly decreasing grain prices in the domestic market, Russia's First Deputy Prime Minister Viktor Zubkov has agreed to measures aimed at supporting Russian grain exports in MY 2008. The measures include reducing grain railway tariffs, expediting VAT reimbursements, stimulating grain and flour exports, and possibly issuing grain export subsidies. Before coming into force, these measures must be approved by the relevant cabinet members and Resolution must be issued. Experts consider that measures aimed at decreasing transportation and logistics expenses have higher chances of being adopted than direct budget subsidies to exporters.

## Russia's Grain Situation in MY 2008

According to Rosstat's data, by the beginning of November, 2008, Russia harvested 112.5 million metric tons (MMT) of grain in bunker weight, or 30.6 percent more than the last year. Experts estimate clean weight grain production at a record 104-106 MMT. Given that the world grain production has increased, Russia's export opportunities are decreasing, and the bumper grain (mostly wheat) crop pushes down domestic grain prices. In European Russia class 3 wheat price decreased by 25 percent to 4,450 rubles per metric ton from middle of September, 2008, to middle of November, 2008, and class 4 wheat price dropped by 30 percent to 3,475 rubles per metric ton<sup>1</sup>. By the middle of November, 2008, Russia exported approximately 9.5 MMT, and contracts for another 4 MMT have already been agreed upon. However, given Russia's logistical challenges and tight competition in the world markets, in winter and spring 2009 additional grain exports will be difficult. Experts estimate that in order to stabilize domestic grain market and prices, Russia will need to "push out of the market" another 10 MMT of grain.

## Proposed Exports Stimuli

On November 19, 2008, Russia's grain lobby submitted estimates of Russia's grain production, supply and consumption data and requested governmental support for grain exports. The appeal was made to First Deputy Prime Minister Viktor Zubkov, who supervises agricultural issues in the Russian Government. Representatives of the Russian Ministry of Agriculture and Ministry of Economic Development also participated in the meeting. According to mass media, the following measures were discussed and approved:

- Decrease of railway transportation fees, and port terminals' fees. Three reduction coefficients were proposed for period starting November 2008 to July 2009: 0.5, 0.7, and 0.8. The decrease of average fee for handling grain in the export terminal in Novorossiysk from the present 350 rubles per metric ton to 200 rubles per metric ton was also proposed<sup>2</sup>;
- Expediting the refund of the Value Added Tax (VAT). According to present legislature, exporters shall be reimbursed VAT within three months following exports, and the period may be extended to 180 days. The Ministry of Agriculture has proposed to decrease this period for exporters which own or have contracted over 150,000 metric tons of grain;

According to mass media, at the meeting they also discussed possible government export subsidies for 10 MMT through July 2009. Two variants of subsidizing grain exports were discussed: direct subsidies to exporters (per metric ton of exported grain), and tied loans to

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<sup>1</sup> Given the increasing US Dollar to Ruble exchange rate, class 3 wheat price decreased by 30 percent to \$162.20, and class 4 wheat price decreased by 35 percent to \$126.7

<sup>2</sup> Majority of shares of the grain terminal in Novorossiysk's port is said to belong to agencies close to the Ministry of Agriculture of the Russian Federation

importing countries. The Ministry of Agriculture considered several levels of export subsidies: from 708 rubles (\$25.75) per metric ton to 966 rubles (\$35.13) per metric ton. Then the total amount of subsidies may cost Russia's federal budget from 7.0 billion rubles (\$255 million) to 9.6 billion rubles (\$349 million) in 2009<sup>3</sup>.

Representatives of the Ministry of Economic Development (MED) noted that members of WTO have agreed to renounce export subsidies beginning 2013, and that Russia's proposed measures may hinder accession to WTO. From MED's perspective, tied loans to importing countries are better<sup>4</sup>. However, the meeting at Viktor Zubkov did not specify or agree upon the levels, volumes of subsidies, or mechanisms of subsidizing.

### Comments

Experts, who are not related to grain exporting companies, do not think in direct subsidies will be supported by the Government. However, if domestic grain prices continue decreasing rapidly, feed consumption slows down, livestock and poultry industries do not absorb the additional grain, and government procurement fail, Russia's grain export lobby may succeed in launching an export subsidies' mechanism.

Post will keep updated on the measures that the Russian Government might adopt in order to stimulate grain exports.

### Relevant Reports

RS8085 Grain and Feed / Government Increased Wheat procurement Prices

<http://www.fas.usda.gov/gainfiles/200811/146306353.pdf>

RS8083 Grain and Feed / Grain November Update

<http://www.fas.usda.gov/gainfiles/200810/146306285.pdf>

RS8078 Agricultural Situation / Feed Subsidies

<http://www.fas.usda.gov/gainfiles/200810/146296116.pdf>

RS8075 Grain and Feed / October Monthly Update

<http://www.fas.usda.gov/gainfiles/200809/146295928.pdf>

RS8052 Grain and Feed / Government Grain Trade Monopoly May Return

<http://www.fas.usda.gov/gainfiles/200807/146295244.pdf>

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<sup>3</sup> The exchange rate for calculations is 27.50 rubles per 1 US Dollar

<sup>4</sup> Some Russian experts in agricultural policy consider that it is better to develop and announce mechanism of export subsidies before Russia join WTO.